

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sault Ste. Marie Housing Commission	County Chippewa
Audit Date 3/31/05	Opinion Date 6/10/05	Date Accountant Report Submitted to State: 8/22/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

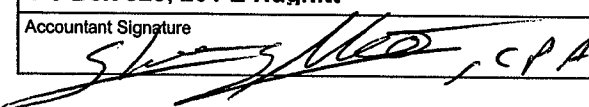
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828, 201 E Hughitt		City Iron Mountain	State MI
		ZIP 49801	
Accountant Signature 			Date 8-24-05

SAULT STE. MARIE HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended March 31, 2005

SAULT STE. MARIE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Sault Ste. Marie Housing Commission as of and for the year ended March 31, 2005 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sault Ste. Marie Housing Commission as of March 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated June 10, 2005 on our consideration of the Sault Ste. Marie Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Governmental Accounting Standards Board Statement No. 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sault Ste. Marie Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is also not a required part of the basic financial statements of Sault Ste. Marie Housing Commission. The Financial Data Schedule and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

June 10, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Sault Ste. Marie Housing Commission's financial performance provides an overview of the financial activities for the year ended March 31, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$7,647,349.
- During the year, the Commission's operating revenues totaled \$1,952,648, or 99% of total revenues, while operating expenses totaled \$1,957,190 or 100% of total expenses.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at March 31, 2005 increased \$15,149 from March 31, 2004.

Table 1
NET ASSETS

Assets	
Current assets	\$ 1,188,514
Capital assets (net)	<u>6,816,464</u>
Total assets	<u>8,004,978</u>
Liabilities	
Current liabilities	326,200
Non-current liabilities	<u>31,429</u>
Total liabilities	<u>357,629</u>
Net Assets	
Invested in capital assets, net of related debt	6,816,464
Unrestricted	<u>830,885</u>
Net Assets	<u>\$ 7,647,349</u>

Net assets of the Commission stood at \$7,647,349. Unrestricted net business assets were \$830,885. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

Table 2**CHANGE IN NET ASSETS****Revenues:**

Program revenues:

Charges for services	\$ 681,886
Program grants & subsidies	1,098,091

General revenues:

Other income	173,639
Unrestricted investment earnings	<u>18,723</u>

Total revenues	1,972,339
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Program Expenses:

Operating expenses	<u>(1,957,190)</u>
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Change in net assets	15,149
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Net assets – beginning of period	<u>7,632,200</u>
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Net assets – end of period	<u>\$7,647,349</u>
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BUSINESS-TYPE ACTIVITIES

Revenues for the Commission totaled \$1,972,339. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.

CAPITAL ASSETS

Capital Assets

At the end of fiscal 2005, the Commission had \$16,408,176 invested in a variety of capital assets including land, equipment and buildings as follows:

Table 3

CAPITAL ASSETS AT MARCH 31, 2005
Business – Type Activity

Land and improvements	\$ 2,922,052
Buildings and improvements	12,812,093
Equipment	441,905
Construction-in-progress	<u>232,126</u>
Total cost	16,408,176
Less accumulated depreciation	<u>(9,591,712)</u>
NET CAPITAL ASSETS	\$ <u>6,816,464</u>

The Commission invested \$805,411 in capital assets during the year ended March 31, 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Patricia Shimmens, at 608 Pine Street, Sault Ste. Marie, Michigan 49783, or call 906-635-5841.

SAULT STE. MARIE HOUSING COMMISSION

STATEMENT OF NET ASSETS
Proprietary Fund

March 31, 2005

CURRENT ASSETS:

Cash and equivalents	\$ 603,118
Accounts receivable	118,920
Investments	457,934
Prepaid expenses	<u>8,542</u>

TOTAL CURRENT ASSETS	<u>1,188,514</u>
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NONCURRENT ASSETS:

Capital assets	16,408,176
Less accumulated depreciation	<u>(9,591,712)</u>

NET CAPITAL ASSETS	<u>6,816,464</u>
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TOTAL ASSETS	<u>\$ 8,004,978</u>
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CURRENT LIABILITIES:

Accounts payable	\$ 159,463
Accrued liabilities	<u>166,737</u>

TOTAL CURRENT LIABILITIES	326,200
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OTHER LIABILITIES	<u>31,429</u>
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TOTAL LIABILITIES	<u>357,629</u>
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NET ASSETS:

Investment in capital assets, net of related debt	6,816,464
Unrestricted net assets	<u>830,885</u>

NET ASSETS	<u>\$ 7,647,349</u>
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CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

SAULT STE. MARIE HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2005

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
BUSINESS-TYPE ACTIVITIES:				
Public Housing	<u>\$ 1,957,190</u>	<u>\$ 681,886</u>	<u>\$ 1,270,762</u>	<u>\$ -</u>
General revenues:				
Unrestricted investment earnings				18,723
Other				968
Total general revenues				<u>19,691</u>
Changes in net assets				15,149
NET ASSETS, beginning of year				<u>7,632,200</u>
NET ASSETS, end of year				<u>\$ 7,647,349</u>

The accompanying notes to the financial statements are an integral part of this statement.

SAULT STE. MARIE HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended March 31, 2005

OPERATING REVENUES:

Tenant revenue	\$ 681,886
Program grants-subsidies	1,098,091
Other operating income	<u>172,671</u>

TOTAL OPERATING REVENUES	<u>1,952,648</u>
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OPERATING EXPENSES:

Administration	386,905
Tenant services	50,227
Utilities	270,286
Maintenance	342,105
General	98,987
Other operating	41,700
Housing assistance payments	165,991
Depreciation	<u>600,989</u>

TOTAL OPERATING EXPENSES	<u>1,957,190</u>
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OPERATING (LOSS)	<u>(4,542)</u>
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OTHER INCOME (EXPENSES):

Gain from sale of fixed assets	968
Interest income	<u>18,723</u>

TOTAL OTHER INCOME (EXPENSES)	<u>19,691</u>
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CHANGE IN NET ASSETS	15,149
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NET ASSETS, BEGINNING OF YEAR	<u>7,632,200</u>
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NET ASSETS, END OF YEAR	<u>\$ 7,647,349</u>
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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

SAULT STE. MARIE HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended March 31, 2005

OPERATING ACTIVITIES:

Cash received from customers	\$ 681,777
Cash received from grants and subsidies	1,021,981
Cash payments to suppliers for goods and services	(712,636)
Cash payments for wages and related benefits	(460,042)
Cash payments for payment in lieu of taxes	(34,331)
Cash received from other revenues	<u>173,111</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>669,860</u>
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CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(805,411)
Proceeds from sale of fixed assets	<u>1,000</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(804,411)</u>
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INVESTING ACTIVITIES:

Proceeds from investments	130,988
Investment income	<u>18,583</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>149,571</u>
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NET INCREASE IN CASH AND EQUIVALENTS	15,020
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>588,098</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 603,118</u>
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**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income (loss)	\$ (4,542)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	600,989
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(75,779)
Decrease (Increase) in prepaid expenses	3,453
Increase (Decrease) in accounts payable	128,621
Increase (Decrease) in accrued liabilities	<u>17,118</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 669,860</u>
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The accompanying notes to financial statements are an integral part of this statement.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Sault Ste. Marie Housing Commission (Commission) was formed by the Sault Ste. Marie City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City Manager.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *"The Financial Reporting Entity"*.

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Sault Ste. Marie Housing Commission but the Sault Ste. Marie Housing Commission is a component unit of the City of Sault Ste. Marie, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.
2. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on April 1st. The operating budget includes proposed expenses and the means of financing them. Prior to March 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to March 31st.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Petty cash	\$ 150
Cash in checkings	395,894
Savings accounts	<u>207,074</u>
TOTAL	<u>\$ 603,118</u>

The Commission's cash and equivalents were fully insured and collateralized at March 31, 2005.

Cash and equivalents are categorized as follows:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>			<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Petty cash	\$ 150	\$ -	\$ -	\$ -
Checking accounts	395,894	-	-	445,867
Savings accounts	<u>207,074</u>	<u>-</u>	<u>-</u>	<u>207,074</u>
TOTAL	<u>\$603,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$652,941</u>



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS(Continued)

STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Commission to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperation's act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

INVESTMENTS

Investments are stated at market value.

Investments consisted of certificates of deposit and were in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 - Insured or registered, with securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commission's name.

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of deposit	<u>\$457,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$457,934</u>

The Commission held investments in excess of F.D.I.C. insurance limits in the amount of \$10,237.

NOTE C - CAPITAL ASSETS

A summary of capital assets as of March 31, 2005 is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>4-1-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>3-31-05</u>
Land and improvements	\$ 2,906,332	\$ 15,720	\$ -	\$ 2,922,052
Building and improvements	12,249,882	562,211	-	12,812,093
Equipment	443,617	13,861	(15,573)	441,905
Construction-in-progress	<u>18,507</u>	<u>525,671</u>	<u>(312,052)</u>	<u>232,126</u>
	15,618,338	<u>\$1,117,463</u>	<u>\$(327,625)</u>	16,408,176
Accumulated depreciation	<u>(9,006,164)</u>	<u>\$(600,989)</u>	<u>\$ 15,441</u>	<u>(9,591,712)</u>
Net capital assets	<u>\$ 6,612,174</u>			<u>\$ 6,816,464</u>

Depreciation expense for the year was \$600,989.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended March 31, 2005 totaled \$1,952,648 of which \$1,098,091 or 56.2% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G- PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(Continued)

NOTE G-- PENSION PLAN (Continued)

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 3.34% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 160,901	100%	\$ -
6/30/03	113,323	100%	-
6/30/04	119,400	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) Entry Age (b)</u>	<u>Over- funded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (ab)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99	\$15,514,516	\$13,610,188	\$1,904,327	114%	\$3,575,119	0%
12/31/00	16,694,480	15,878,641	815,839	105%	3,741,740	0%
12/31/01	17,481,855	15,814,445	1,667,410	111%	3,468,584	0%
12/31/02	17,503,766	17,447,662	56,104	100%	3,670,545	0%
12/31/03	18,223,939	18,105,810	118,129	101%	3,945,779	0%



**SUPPLEMENTAL
INFORMATION**



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS						
CURRENT ASSETS:						
Cash:						
111	Cash - unrestricted	\$ 61,974	\$ 505,848	\$ 35,296	\$ -	\$ 603,118
100	Total cash	61,974	505,848	35,296	-	603,118
Accounts and notes receivables:						
122	Accounts receivable- HUD other projects	-	-	-	96,327	96,327
124	Accounts receivable- Other government	14,076	-	-	-	14,076
125	Accounts receivable- Miscellaneous	2,868	-	-	-	2,868
126	Accounts receivable- Tenants - dwelling rents	-	18,338	-	-	18,338
126.1	Allowance for doubtful accounts - dwelling rents	-	(14,456)	-	-	(14,456)
129	Accrued interest receivable	-	1,767	-	-	1,767
120	Total receivables, net of allowances for doubtful accounts	16,944	5,649	-	96,327	118,920
Other current assets:						
131	Investments	-	457,934	-	-	457,934
142	Prepaid expenses	36	8,433	73	-	8,542
144	Interprogram due from	-	109,243	-	-	109,243
150	TOTAL CURRENT ASSETS	78,954	1,087,107	35,369	96,327	1,297,757

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
NONCURRENT ASSETS:						
Fixed assets:						
161	Land	-	460,439	-	-	460,439
162	Buildings	-	12,500,041	-	312,052	12,812,093
163	Furniture, equipment & machinery - dwellings	-	184,834	-	-	184,834
164	Furniture, equipment & machinery - administration	3,922	242,634	10,515	-	257,071
165	Leasehold improvements	-	2,461,613	-	-	2,461,613
166	Accumulated depreciation	(2,416)	(9,585,986)	(3,310)	-	(9,591,712)
167	Construction in progress	-	-	-	232,126	232,126
160	Total fixed assets, net of accumulated depreciation	1,506	6,263,575	7,205	544,178	6,816,464
180	TOTAL NONCURRENT ASSETS	1,506	6,263,575	7,205	544,178	6,816,464
190	TOTAL ASSETS	\$ 80,460	\$ 7,350,682	\$ 42,574	\$ 640,505	\$ 8,114,221

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
LIABILITIES AND NET ASSETS						
LIABILITIES:						
CURRENT LIABILITIES						
312	Accounts payable ≤ 90 days	\$ 841	\$ 158,495	\$ 127	-	\$ 159,463
321	Accrued wages / payroll taxes payable	-	28,562	-	-	28,562
322	Accrued compensated absences - current portion	617	8,638	530	-	9,785
331	Accounts payable - HUD PHA programs	-	-	2,610	-	2,610
333	Accounts payable - other government	-	35,078	-	-	35,078
341	Tenant security deposits	-	69,801	-	-	69,801
342	Deferred revenues	1,028	19,873	-	-	20,901
347	Interprogram due from	11,217	-	1,699	96,327	109,243
310	TOTAL CURRENT LIABILITIES	13,703	320,447	4,966	96,327	435,443
354	Accrued compensated absences - non current	1,967	28,241	1,221	-	31,429
350	TOTAL NONCURRENT LIABILITIES	1,967	28,241	1,221	-	31,429
300	TOTAL LIABILITIES	15,670	348,688	6,187	96,327	466,872

See accompanying notes to financial statements

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

March 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>NET ASSETS</u>						
508.1	Investment in capital assets, net of related debt	1,506	6,263,575	7,205	544,178	6,816,464
512.1	Unrestricted net assets	63,284	738,419	29,182	-	830,885
513	TOTAL NET ASSETS	64,790	7,001,994	36,387	544,178	7,647,349
600	TOTAL LIABILITIES AND NET ASSETS	\$ 80,460	\$ 7,350,682	\$ 42,574	\$ 640,505	\$ 8,114,221

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>						
703	Net tenant rental revenue	\$ -	\$ 627,093	\$ -	\$ -	\$ 627,093
704	Tenant revenue - other	-	54,793	-	-	54,793
705	Total tenant revenue	-	681,886	-	-	681,886
706	HUD PHA grants	-	373,640	157,439	41,342	572,421
706.1	Capital grants	-	-	-	525,670	525,670
708	Other government grants	80,717	-	-	-	80,717
711	Investment income - unrestricted	156	18,501	66	-	18,723
714	Fraud recovery	-	-	689	-	689
715	Other revenue	59,876	31,389	-	-	91,265
716	Gain / loss on sale of fixed assets	-	968	-	-	968
700	TOTAL REVENUE	140,749	1,106,384	158,194	567,012	1,972,339
<u>EXPENSES</u>						
Administrative:						
911	Administrative salaries	10,649	133,118	10,474	16,416	170,657
912	Auditing fees	256	3,655	430	-	4,341

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE
Proprietary Fund**

For the Year Ended March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
914	Compensated absences	2,584	1,985	72	-	4,641
915	Employee benefit contributions- administrative	3,703	44,839	3,833	4,376	56,751
916	Other operating- administrative	18,197	124,050	8,268	-	150,515
	Total Administrative	35,389	307,647	23,077	20,792	386,905
Tenant services:						
921	Tenant services - salaries	24,020	9,362	-	-	33,382
923	Employee benefit contributions- tenant services	7,736	3,399	-	-	11,135
924	Tenant services - other	-	5,710	-	-	5,710
	Total Tenant Services	31,756	18,471	-	-	50,227
Utilities:						
931	Water	-	94,058	-	-	94,058
932	Electricity	-	25,794	-	-	25,794
933	Gas	-	150,434	-	-	150,434
	Total Utilities	-	270,286	-	-	270,286
Maintenance:						
941	Ordinary maintenance and operations - labor	-	138,684	-	-	138,684

See accompanying notes to financial statements



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
942	Ordinary maintenance and operations - materials & other	379	46,518	-	-	46,897
943	Ordinary maintenance and operations - contract costs	-	104,581	-	-	104,581
945	Employee benefit contributions- ordinary maintenance	-	51,943	-	-	51,943
	Total Maintenance	379	341,726	-	-	342,105
	General expenses:					
961	Insurance premiums	-	59,337	-	-	59,337
962	Other general expenses	-	1	-	-	1
963	Payments in lieu of taxes	-	35,078	-	-	35,078
964	Bad debt - tenant rents	-	4,571	-	-	4,571
	Total General Expenses	-	98,987	-	-	98,987
969	TOTAL OPERATING EXPENSES	67,524	1,037,117	23,077	20,792	1,148,510
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	73,225	69,267	135,117	546,220	823,829

See accompanying notes to financial statements



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

SAULT STE. MARIE HOUSING COMMISSION

FINANCIAL DATA SCHEDULE
Proprietary Fund

For the Year Ended March 31, 2005

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
971	Extraordinary maintenance	-	41,700	-	-	41,700
973	Housing assistance payments	33,466	-	132,525	-	165,991
974	Depreciation expense	17	598,964	2,008	-	600,989
900	TOTAL EXPENSES	101,007	1,677,781	157,610	20,792	1,957,190
Other financing sources (uses)						
1001	Operating transfers in	-	20,550	-	-	20,550
1002	Operating transfers out	-	-	-	(20,550)	(20,550)
1010	Total other financing sources (uses)	-	20,550	-	(20,550)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 39,742	\$ (550,847)	\$ 584	\$ 525,670	\$ 15,149
MEMO account information						
1103	Beginning equity	\$ 25,048	\$ 7,086,674	\$ 36,169	\$ 484,675	\$ 7,632,566
1104	Prior Period Adjustments, Equity Transfers	\$ -	\$ 466,167	\$ (366)	\$ (466,167)	\$ (366)
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ -	\$ 161,006	\$ -	\$ 161,006
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ -	\$ 3,715	\$ -	\$ 3,715
1116	Total Annual Contributions Available	\$ -	\$ -	\$ 164,721	\$ -	\$ 164,721
1120	Unit months available	-	3,120	600	-	3,720
1121	Number of unit months leased	-	3,099	579	-	3,678

See accompanying notes to financial statements

SAULT STE. MARIE HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended March 31, 2005

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



SAULT STE. MARIE HOUSING COMMISSION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
"GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

We have audited the financial statements of the business-type activities of the Sault Ste. Marie Housing Commission, as of and for the year ended March 31, 2005, which collectively comprise the Sault Ste. Marie Housing Commission's basic financial statements and have issued our report thereon dated June 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sault Ste. Marie Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sault Ste. Marie Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Sault Ste. Marie Housing Commission in a separate letter dated June 10, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Co., P.C.

ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants
Iron Mountain, Michigan

June 10, 2005

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of Sault Ste. Marie Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended March 31, 2005. Sault Ste. Marie Housing Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sault Ste. Marie Housing Commission's management. Our responsibility is to express an opinion on Sault Ste. Marie Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sault Ste. Marie Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sault Ste. Marie Housing Commission's compliance with those requirements.

In our opinion Sault Ste. Marie Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2005.

Internal Control Over Compliance

The management of Sault Ste. Marie Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sault Ste. Marie Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

June 10, 2005

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



SAULT STE. MARIE HOUSING COMMISSION

For the Year Ended March 31, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expended as of 3-31-04</u>	<u>3-31-05 Federal Expenditures</u>
Operating Subsidy	14.850	\$ <u>373,640</u>	\$ _____ -	\$ <u>373,640</u>
Section 8 Rental Voucher	14.871	\$ <u>157,439</u>	\$ _____ -	\$ <u>157,439</u>
Capital Funding	14.872			
501-03		\$ 369,557	\$ 34,671	\$ 334,886
501-04		<u>427,986</u>	_____ -	<u>232,126</u>
		\$ <u>797,543</u>	\$ <u>34,671</u>	\$ <u>567,012</u>
Total Department of Housing and Urban Development				\$ <u>1,098,091</u>
TOTAL FEDERAL EXPENDITURES				\$ <u>1,098,091</u>

See accompanying notes to the schedule of expenditures of federal awards.



SAULT STE. MARIE HOUSING COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended March 31, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sault Ste. Marie Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.



SAULT STE. MARIE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended March 31, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Sault Ste. Marie Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Sault Ste. Marie Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Sault Ste. Marie Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Sault Ste. Marie Housing Commission.
7. The programs tested as major programs included:
 - A. Capital Fund – CFDA 14.872
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Sault Ste. Marie Housing Commission was determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no prior findings or questioned costs.





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

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L. Robert Schaut, CPA
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Private Companies Practice Section
American Institute of Certified
Public Accountants

June 10, 2005

Board of Commissioners
Sault Ste. Marie Housing Commission
Sault Ste. Marie, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Sault Ste. Marie Housing Commission for the year ended March 31, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 10, 2005, on the financial statements of the Sault Ste. Marie Housing Commission.

1. During the review of cash and investments it was noted that although the Commission had depository agreements in place with the banks it does business with, the Commission's funds were not fully collateralized as required by HUD.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission had depository agreements signed with each of its banks, it did not follow-up with them to verify that they had those funds in excess of \$100,000 insured. At March 31, 2005, the Commission had funds in excess of insured amounts with the Old Missions Bank totaling \$10,237. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks is adequate throughout the year.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA
Principal